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SUBJECT: BRAZIL: LIFTING OF OPERATIONAL RESTRICTIONS AT RIO'S SANTOS DUMONT AIRPORT UNLEASHES ANGRY REACTION

SENSITIVE BUT UNCLASSIFIED

REF: A) BRASILIA 0016 B) BRASILIA 0076 C) 08 BRASILIA 1621

¶11. (SBU) Summary: Brazil's Agency for Civil Aviation Regulation (ANAC) announced March 4 that it would lift operational restrictions placed on Rio's Santos Dumont airport. The decision opened a torrent of angry and combative comments by Rio's Governor Sergio Cabral and Rio's Mayor Eduardo Paes, who had been fighting ANAC, the Minister of Defense Nelson Jobim, and new market entrant Azul Airlines to stop this measure from going forward. The governor and mayor argue that this action would devalue Galeao at a time when its privatization is being pursued as a lead up to Brazil hosting the 2014 World Cup. ANAC's announcement is not the last move in this politically charged debate - the governor has threatened to, and can, use state tax and licensing authorities to thwart the successful expansion of Santos Dumont. End Summary.

ANAC'S DECISION

¶12. (U) Regulation 187/05 restricted passenger service at Santos Dumont to propeller service, maximum carrying capacities of 50 people, and permitted service primarily to Sao Paulo's Congonhas airport, creating what is called the Rio-Sao Paulo air bridge (Note: while the Rio-Sao Paulo route is the most popular at Santos Dumont, the airport also services other domestic routes. End Note). The restrictions, imposed in 2005 by the former civil air regulator, the Department of Civil Aviation (DCA), were designed to increase air traffic at Rio's larger Galeao airport and elevate it to hub status. In justifying its decision to lift the restrictions, ANAC explained that this action was consistent with their mandate of fostering greater competition in the civil aviation sector as long as capacity and safety requirements were satisfied. ANAC made its decision after evaluating comments received during a contentious public hearing held in Rio two months earlier. This decision also came on the heels of a Federal court ruling that favored upstart Azul airline's claim that the restrictions fostered an uncompetitive business environment where 90 percent of Santos Dumont's air traffic was on domestic carriers Gol and TAM. ANAC announced that it would meet with airlines interested in expanding their services to Santos Dumont once 187's revocation is officially published, which should occur within one week. Based on the airline's requests, ANAC will then determine slot distributions at Santos Dumont, which, according to ANAC, could increase its 120 daily flights to 200. ANAC expects that low-cost carriers such as Azul, A Trip, Webjet and OceanAir will aggressively pursue this option together with TAM, despite TAM's strong opposition to ANAC's decision. ANAC plans to authorize service between Santos Dumont and Belo Horizonte, Salvador and Brasilia in the near future.

RIO DE JANEIRO REACTION

¶13. (SBU) ANAC's decision has caused local politicians including Rio

Governor Sergio Cabral and new Rio Mayor Eduardo Paes significant frustration. State and municipal authorities see the development of Galeao, Rio's only international airport, as the priority in light of Brazil's commitment to host the 2014 World Cup and Rio's candidacy for the 2016 Olympics. State and municipal authorities have been working to attract investment for Galeao's eventual privatization, an initiative which has required substantial political capital on the part of Cabral. ANAC's move to expand Santos Dumont airport is seen as undermining those efforts. The governor and mayor argue expanding Santos Dumont service would devalue Galeao by taking service from it at a time when Galeao's value needs to be enhanced to attract potential investors. (Comment: Conflicts still exist within the Gob whether airport privatization through concessions will in fact occur any time soon (Reftel C). Brigader Cleonilson Nicacio Silva, president of INFRAERO, Brazil's airport infrastructure management company, was recently quoted in the press as being opposed to the idea of privatizing INFRAERO, a key element in an eventual privatization model. Defense Minister Jobim responded the next day in the press that Silva did not have the authority to make such comments and that the privatization of INFRAERO and the concession initiative for airports Galeao in Rio, Viracopos in Sao Paulo and a third airport in Sao Paulo to be named later, could still begin this year. End Comment).

¶4. (U) Cabral has accused ANAC of not respecting his and Mayor Paes' political authority by opening Santos Dumont. Calling ANAC's decision cowardly and absurd, Governor Cabral vowed to fight the expansion of Santos Dumont in the judiciary. Mayor Paes is also publicly committed to fighting against any new flights at Santos Dumont. In a March 4th article in national newspaper O Globo, Cabral accused ANAC of ceding to the pressures of Azul's owner David Neeleman, who Cabral labeled as a "lobbyist," "liar" and "gringo"

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(Note: Neeleman, founder of U.S. airline Jet Blue, is a dual American/Brazilian citizen. Cabral mocked his American accent in the same article. End Note). Cabral has threatened to impede new flights at Santos Dumont by increasing the state tax on aviation kerosene from 4 percent to 18 percent. Cabral also has raised the possibility of not issuing new environmental licenses required for the proposed service expansion at Santos Dumont, which would blunt low-cost carriers' ability to use the airport as a regional hub and would preserve TAM and Gol's duopoly there.

¶5. (SBU) Cabral also targeted Minister of Defense Jobim, criticizing him for appointing Solange Vieira as ANAC's president. Cabral claimed that Jobim is no longer willing to talk with him about Santos Dumont, forcing Cabral to pursue drastic measures that could lead to an increase in hostilities and operational challenges at Santos Dumont. (Note: Industry contacts of consulate Sao Paulo have suggested that Cabral's vehement opposition to Santos Dumont's expansion is linked to his alleged connections to special interests that would benefit financially from the revitalization of Galeao, estimated to cost over USD 40 million. Post has not been able to confirm such allegations. End Note).

AZUL'S RESPONSE

¶6. (U) In responding to the opposition to the expansion of services at Santos Dumont, Azul referenced President Lula's recent unsuccessful attempts to convince Brazil's largest plane manufacturer, Embraer, to cancel their plans to lay off 4,000 employees and his urging of Brazilian airlines to buy Embraer planes. Azul's president, Pedro Janot, commented in a March 4th article in national economic newspaper Valor that Azul was the only Brazilian airline to buy Embraer planes, and that Embraer models 190/195 were ideal planes for airports with operational capacities like Santos Dumont. He added that Azul's 78 Embraer orders were earmarked for use at Santos Dumont and that he could not understand why Cabral and Paes would obstruct the President's efforts to stimulate Embraer sales while addressing the domestic effects of the global economic crisis.

¶7. (SBU) Comment: Given the strong opposition to this measure by Rio's state and municipal officials, there are sure to be continued

attempts to thwart the implementation of ANAC's decision. Nonetheless, ANAC's measure regarding Santos Dumont represents a small, yet significant step toward achieving the agency's mandate to create greater competition within the Brazilian civil aviation sector. This measure also incorporates an important public relations effort that was crucial for ANAC, given its false starts in implementing other liberalization measures, such as international airfare deregulation, which led to legal battles over the requirement for public hearings. By communicating directly to the public the benefits of increased aviation competition, ANAC is attempting to fulfill its other mandate as defender of passenger's rights. Public perception of ANAC's liberalizing efforts will be an important factor in determining whether ANAC has the domestic political strength at the federal level to push through its proposed reforms in the face of state/municipal opposition. In this case, the governor has plenty of tools at his disposal, including state fuel taxes and state environmental license authority, to slow roll or stop the attempt to expand Santos Dumont operations. End Comment.

¶8. (U) This message was coordinated with Consulates Rio and Sao Paulo.

KUBISKE